

Message Text

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ACTION NEA-10

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COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
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E.O. 11652: N/A
TAGS: ENRG, PINR, KU
SUBJ: KOC REFINERY EXPANSION

1. ACCORDING TO SOURCES WITHIN THE OIL MINISTRY, THE MINISTER OF OIL SHAYKH ALI KHALIFAH AL SABAH HELD A PRIVATE MEETING WEDNESDAY, AUGUST 9, 1978 AT 2015 HOURS WITH AHMAD ABDULMOHSIN AL MUTAIR, CHAIRMAN OF THE KUWAIT NATIONAL PETROLEUM CO. (KNPC), AND AHMAD JA'FAR, CHAIRMAN OF THE KUWAIT OIL CO. (KOC) TO DISCUSS KOC'S PROPOSED EXPANSION OF REFINERY--A MOVE KNPC VEHEMENTLY OPPOSES.

2. THE KOC REFINERY IS PRESENTLY RUNNING AT LESS THAN 50 PERCENT CAPACITY WITH LITTLE MARKET FOR ITS PRODUCT, A HIGHLY SULFURIZED FUEL OIL. KOC'S POSITION IS THAT ONCE THE LPG PROJECT TAKES THE GAS FEED STOCK WHICH CURRENTLY FUELS POWER GENERATION/WATER DESALINATION, THE SURPLUS KOC CAPACITY FOR FUEL OIL PRODUCTION REPRESENTS A READY ALTERNATIVE ENERGY SUPPLY FOR THESE PURPOSES. THE ONLY PROBLEM IS THAT THE HIGH SULFUR CONTENT OF THE FUEL OIL WOULD CREATE A MASSIVE POLLUTION PROBLEM. TO RECTIFY THIS SITUATION, KOC PROPOSES TO BUILD A DE-SULFURIZING PLANT, OF WHICH THE PROJECTED COST IS \$400 MILLION. KOC IS CONSIDERING EITHER GULF OIL OR UNION OIL
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AS THE PRIMARY CONTRACTOR AND IS PRESENTLY LEANING TOWARDS UNION OIL.

3. KNPC MAINTAINS THAT THE REFINERY EXPANSION IS UNNECESSARY. THEY POINT TO THE LPG PROJECT, WHICH HAS SOLD ONLY 300,000 TONS OF ITS PROJECTS 3,500,000 TON CAPACITY, SAYING THAT THERE WILL BE SURPLUS LPG FOR POWER GENERATION AND DESALINATION FOR

THE NEAR FUTURE. KNPC MAINTAINS AS WELL THAT THE HOPED FOR
DISCOVERY OF A SOURCE OF NONASSOCIATED GAS THROUGH THE CURRENT
DEEP WELL DRILLING EFFORTS WOULD ELIMINATE THE NEED TO HAVE FUEL
OIL FOR THESE PURPOSES ALTOGETHER. THE DESULFURIZING PLANT
WOULD THEN BE WORTH NEITHER ITS COST NOR THE RESULTANT STOCKPILES
OF UNMARKETABLE SULFUR AND FUEL OIL.

4. THE OIL MINISTRY ALLEGES A POSITION OF NEUTRALITY,
WHILE ALLOWING KOC AND KNPC TO SLUG IT OUT IN BOTH OFFICIAL
AND PRIVATE CHANNELS. THE PROPOSAL IS "UNDER STUDY" AND
PROBABLY WILL REMAIN SO UNTIL LATE 1978.
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